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Third World Economic Prospects to 1990: Implications for the United States

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A Research Paper

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A Research Paper

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OGI, on

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Third World Economic Prospects to 1990: Implications for the United States

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Key Judgments

Information available as of 22 April 1985 was used in this report.

Moderate improvements in economic performance will allow most Third World governments to "muddle through" the next five years with varying degrees of policy compromise that neither dismantles their economic austerity programs nor leads to dramatic political or economic upheavals. According to projections prepared by Data Resources Inc., Chase Econometrics, and SRI International, the Third World should grow at a real average annual rate of between 4 and 5 percent to 1990. Although below the high rates recorded in the 1960s and 1970s, this performance is an improvement over the depressed rates experienced during the past few years. At the same time, consumer price inflation is expected to slow, an improved trade surplus will help the Third World reduce its current account deficit, and outstanding external debt is forecast to rise more slowly.

In our judgment, the Third World's economic prospects have several important economic and political implications for the United States and its industrial allies:

- In the area of international trade, the United States and other industrial countries will be required to absorb increasing amounts of Third World exports. We anticipate that the trade frictions between the Third World and industrial countries will grow as many export-oriented Latin American and Asian countries make greater use of trade-distorting measures to expand their exports. In addition, the newly industrialing countries pose a potential threat of becoming an alternative supplier of sensitive, high-technology products to Communist countries by the end of the decade.

- Although no major financial crises are expected to emerge under the baseline outlook during the latter half of the decade, the need for periodic financial rescue packages will continue, and their use probably will broaden to such second-tier debtors as Egypt and Colombia. New commercial bank lending is expected to be minimal, and the investment incentives implemented by the Third World probably will not attract a substantial amount of foreign direct investment. As a result, we believe the Third World's demands for additional flows of concessional aid, particularly by Sub-Saharan Africa, will heighten during the remainder of the decade.

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- Increasing Third World stratification will lead the developing countries to break into relatively small blocs or ad hoc groups with common economic problems. We expect these groups to press the industrial countries to adopt policies tailored to their members' unique conditions. The Cartagena group of Latin American debtors is one such group. Others could crystallize around aid and industrial country protectionism. These special interests could lead to growing regionalism as the Latin American countries concentrate on debt, the Africans on aid, and the Asians on protectionism.

The Third World's improving economic outlook is fragile and could be easily altered. Because of the high-downside risks attached to the baseline forecast and to the fact that the Third World would only be in the initial stages of an economic recovery, any one of a number of possible shocks would worsen their economic prospects. According to the forecasters' projections, the most disruptive effects on the Third World's economic performance would occur if trade protectionism heightened or industrial country growth slowed. In our judgment, the main implications of these disruptions would evolve around the extensive use of aggressive export-oriented trade policies, greater global financial instability, increased cooperation among developing countries and would threaten the political stability of some Third World governments.

In our judgment, Third World economic trends and desires during the remainder of the decade will create a policy dilemma for the United States. Aware that their economic prospects depend in large measure on US economic policies, we believe the Third World will bring increasing pressure on the United States to manage its economy with international economic goals in mind. Specifically, they will call for reduced interest rates, lowered US trade barriers, and continued protection of their own markets, particularly in new areas such as services. Many of these objectives, however, will reflect Third World needs and conflict with US domestic concerns. Because of the fragile nature of the Third World's economic outlook, it is unlikely that these pressures will diminish during the remainder of this decade.

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Appendixes

Preface

This research paper is part of Directorate of Intelligence research efforts concerning Third World development prospects. This report has been prepared with the objective of providing quantitative estimates concerning Third World economic prospects to 1990 and assessing their effect on the interests of the industrial countries and particularly the United States. The economic outlook presented is a consensus of forecasts prepared on contract by Data Resources Inc., Chase Econometrics, and SRI International. Copies of these studies may be obtained from the Chief, Development Issues Branch, Office of Global Issues, on [redacted] 25X1

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Third World Economic Prospects to 1990: Implications for the United States

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During the past two decades, the Third World has emerged as a major actor in the world economy. Today, Third World countries are suppliers of key raw materials and selected manufactures, markets for a growing share of industrial country exports, and partners with an increasing number of industrial country firms in the manufacture of many consumer goods. At the same time, the Third World has emerged as formidable competitors to industrial country manufacturers of many labor- and capital-intensive products and have had a significant impact on the stability of the international financial system.

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Our analysis of the Third World's economic prospects to 1990 suggests that its influence on the political and economic interests of industrial countries will not diminish in the future. Indeed, the impact of its economic performance on the industrial countries probably will increase in:

- *International trade,* including growing tensions in North-South trade relations and the emergence of Third World exporters of high-technology products.
- *International finance,* including continuing debt repayment crises and heightened demands for additional concessional aid flows.
- *North-South relations,* including the formation of Third World blocs or ad hoc groups confined to single issues such as debt, aid, and protectionism.

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Economic Prospects to 1990

The Third World is expected by most observers to post modest improvements in economic performance through the end of the decade. Continued industrial-country growth and low world oil prices underlie this improved outlook. According to forecasts prepared by Data Resources Inc. (DRI), Chase Econometrics (Chase), and SRI International (SRI), the Third World's economic prospects to 1990 include: [1]

- A modest acceleration in real economic growth to 4.5 percent annually during 1985-89. This rate is a considerable improvement over the last six years when growth averaged 2.4 percent per annum but is still nearly a full percentage point below what was achieved in the two decades prior to 1979 (table 1).
- A decline in the average rate of inflation to 25 to 35 percent per annum. Although a significant decline from the 1984 peak of 50 percent, this outlook is as inflationary as the late 1970s and early 1980s.
- A steady increase in the Third World's trade surplus, which contributes to as much as a $25 billion reduction in the current account deficit between 1984 and 1990.
- A slowdown in the growth of foreign indebtedness to 6 to 7 percent annually, a rate considerably lower than the 21-percent average annual rate experienced during the four years prior to 1981. The Third World's net financing needs for the remainder of the decade are expected to average $30-40 billion annually, compared with $50 billion annually during 1982-84.

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The Third World's improved economic prospects, however, will not be shared equally by all countries. According to the forecasters' projections, the strongest overall economic performance will be registered

[1] See appendixes A through D for the assumptions made by each forecasting service and for the specific details of each forecasting services' baseline forecasts.

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Table 1
Third World: Comparison of Baseline Forecasts, 1984-89

	1984 [a]	1985 [b]	1986 [b]	1987 [b]	1988 [b]	1989 [b]	Average 1985-89
Real GNP growth *(percent)*							
DRI [c]	0.7	4.0	4.1	4.7	5.2	5.1	4.6
SRI	3.7	4.2	4.4	4.5	4.7	4.7	4.5
Chase	2.7	4.3 [d]	4.3	4.3	4.6	4.4	4.4
Consumer price inflation *(percent)*							
DRI	57.9	41.4	30.2	25.4	23.5	21.4	28.2
SRI	35.6	30.0	32.0	35.0	38.0	40.0	34.9
Chase	44.6	37.8	28.9	23.8	21.8	20.4	26.4
Current account balance *(billion US $)*							
DRI	38.7	40.8	−39.1	−35.6	−29.8	−26.0	−34.3 [e]
SRI	−54.0	−57.0	−70.0	−80.0	−100.0	−110.0	−83.4
Chase	−26.7	−26.3	−16.2	−7.4	−3.5	−3.1	−11.3

[a] Estimated.
[b] Projected.
[c] Data are for GDP.
[d] Real GNP and consumer prices are average annual rates of growth.
[e] Current account balance are annual averages.

Source: appendix D, table D-1, D-2, and D-4.

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by *Asia* where economic growth is expected to average 5 percent annually over the next five years. The region's growth will be propelled by the Asian newly industrialing countries (NICs), which are projected to grow at an average rate of about 7 percent per annum. The growth of most other Asian countries, however, will be encumbered by the expected weak world demand for their exports of nonoil primary commodities.[2] With the exception of the Philippines, Asian inflation rates are expected to average 7 to 9 percent annually, well below the Third World's average (figure 1).

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The *Middle East*'s economic growth prospects are expected to parallel those of the Third World at large. The region's economies are projected to grow at a real average annual rate of 4.2 percent. The rate of inflation will significantly improve over the Third World's performance, averaging roughly 10 percent annually, according to the forecasts. A gradual rise in oil prices starting in 1986, because of an increase in world demand for oil, is expected to help eliminate some $20-25 billion from the region's current account deficit by 1990. We believe this may be optimistic because of available excess oil capacity.

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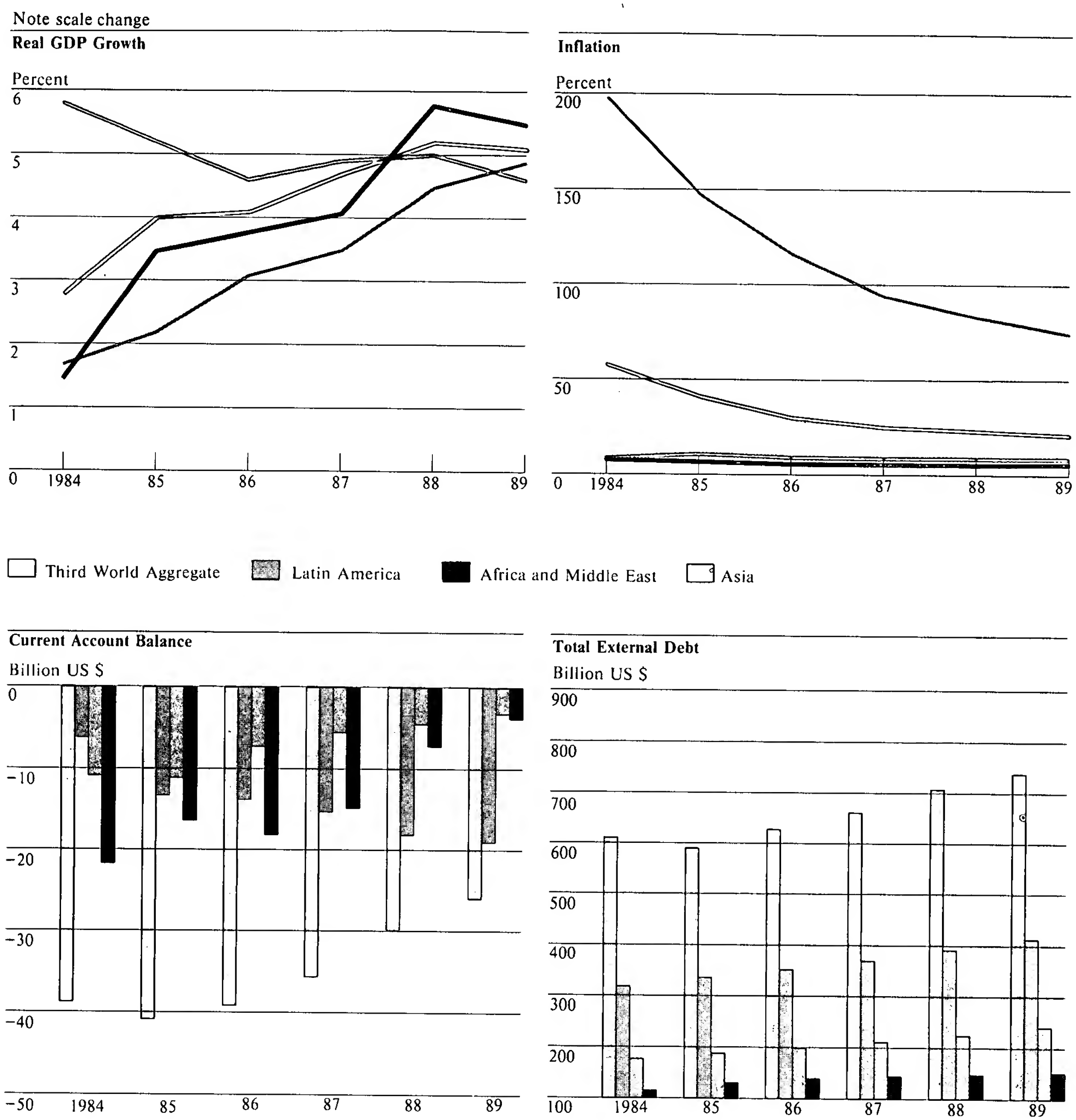
Figure 1
Third World Economic Outlook, 1984-89



Source: Appendix D, DRI Inc.

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Despite signs that *Latin America*'s economic contraction is bottoming out, the longer term outlook for the region is not optimistic. According to the forecasters' projections, Latin America's GNP will expand at an average real annual rate of about 3.5 percent by 1990, well below the 6-percent-plus rates attained during the 1970s. Although many debtor countries either have implemented or intend to implement the adjustment policies needed to sustain long-run growth, private forecasters believe that the governments' failure to curb domestic inflation, reduce public expenditures, and accelerate the pace of structural reform as well as the weak improvement in industrial country growth will encumber the region's growth and exacerbate its external financial problems. [redacted]

Latin American inflation will continue to be the highest in the Third World. Triple-digit inflation in Argentina and Brazil and quadruple-digit inflation in Bolivia are expected to keep the region's rate of inflation near 80 to 100 percent to 1990. Measures implemented to constrain imports and boost exports should contribute to an $8-15 billion increase in the region's trade surplus. The projected growth in interest payments on outstanding debt, however, is expected to more than offset the trade surplus, and the current account deficit will expand by an additional $5-10 billion by 1990. The growth of Latin America's outstanding debt and debt service payments is also expected to be the highest in the Third World. [redacted] for example, predicts that between 1984 and 1990 the region's total debt will rise from $320 billion to more than $410 billion and the debt service will average roughly 72 percent of goods and services exports—well above the Third World average of 48 percent. [redacted]

The major exception to the improved Third World economic outlook is *Sub-Saharan Africa*. According to the forecasters' projections, Sub-Saharan Africa will, at best, average only 3-percent real growth during 1985-89. This slow growth is attributed to nagging internal structural problems, such as domestic pricing policies for agricultural products that have weakened the region's productive capacity, and the bleak outlook for nonoil primary commodity exports. It is anticipated that the region's accelerating rate of population growth will more than offset any gains in economic growth, and the region's real per capita income will continue to decline through 1990. Mounting food, fuel, and debt service payments are expected to consume up to 75 percent of the region's total export earnings. Consequently, it is projected that the current account balance will steadily deteriorate, and the region will be confronted with a foreign exchange crisis through the end of the decade. [redacted] 25X1

Implications

In our judgment, the Third World's improved economic outlook will be sufficient to allow most Third World governments to "muddle through" the next five years. Nonetheless, we anticipate that the Third World's economic performance to 1990 will have several important economic implications for the United States and its Western allies in the areas of international trade, international finance, and North-South relations (table 2). [redacted] 25X1 25X1

Trade Frictions Mount, Asian NICs Progress Into Higher Technology Products

Trends in International Trade. In our judgment, two developments will dominate the trends in international trade that emerge during the next five years. First, the rapid growth of US imports, which has been the locomotive of economic growth for many Third World countries since 1982, is not expected to continue. Forecasters foresee a slight decline in the value of the US dollar, a cooled-off domestic economy, and mounting trade protectionism, reducing the growth of US imports from 8.9 percent in 1985 to 4.3 percent in 1986 before bottoming out at roughly 3.3 percent for the remainder of the decade. Second, the Third World is expected to take a more aggressive role in promoting its exports in the world market. This judgment is drawn because of their increasing emphasis on export-oriented growth as a means to finance critical imports and meet debt servicing obligations. [redacted] 25X1 25X1 25X1

In light of these developments, we believe many US industries that actively compete with Third World manufacturers both domestically and abroad will be

Table 2
United States: Implications of the Third World's Economic Outlook

	Trade Relations	Financial Concerns	Other
Asian NICs	US manufacturers of selected labor-intensive products will experience increased competition from Asian imports. Trade-distorting measures may be used more aggressively. Opened markets will benefit US exporters of capital goods and agricultural products.	Primary recipients of any new commercial bank lending.	Competition for export markets and foreign investment may reduce Third World solidarity. May emerge as an alternative source of supply to Communist countries of COCOM-restricted products.
Major debtors	More aggresive use will be made of trade-distorting measures. Increased demands for better access to US markets.	Periodic debt repayment crises will spread to smaller debtor countries. Demands on multilateral capital sources, and associated US support of these sources will grow.	Third World solidarity may be reduced as competition for export markets and foreign investment intensifies. Government stability may waver under pressures against austerity programs.
Oil exporters	OPEC's ability to survive as a cartel is gradually diminished.		Financially troubled oil exporters become increasingly dependent on trade, aid, and creditor concessions to ease their economic pressures.
Nonoil commodity exporters			Greater amounts of foreign aid will be required to offset the slow growth of commodity export earnings.

Note: The baseline forecast for the Third World suggests that overall economic growth will be sufficient to allow Third World governments to "muddle through" the next five years. Although several trade and financial concerns are likely to emerge that have significant implications for the United States, we do not anticipate that there will be any dramatic shocks through the end of the decade.

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subjected to increasing competitive pressures during the remainder of the decade. The industries affected will include consumer goods sectors such as textiles and apparel, footwear and other leather goods, and electronic components as well as others such as steel and metal products in which the Third World, particularly the NICs, have achieved significant market inroads in recent years. At the same time, however, the Third World will become a more important market for US and other industrial countries' exports. We believe the major beneficiaries of this growth probably will include exporters of capital goods, particularly construction and transportation equipment, as well as exporters of agricultural products. 25X1

An additional implication of these developments is that competition between Third World countries will intensify as they compete for a larger share of a slowly expanding world market for manufactures. This competition will be concentrated between the Asian NICs

of Hong Kong, Singapore, South Korea, and Taiwan; such second-tier exporters of manufactures as Malaysia, Thailand, and India; and several financially troubled countries, such as Brazil and Mexico, where manufactures exports account for a large share of export earnings. We believe this competition, in turn, will accelerate a trend that is already occurring among these countries to broaden their manufactures export base. The Asian NICs are expected to push more aggressively into capital-intensive, higher technology industries that are subject to fewer import restrictions in industrial countries. The second-tier manufactures exporters will accelerate their move into such labor-intensive, consumer goods industries as textiles, apparels, and simple consumer electronics where they have a comparative advantage in production. Many of the financially troubled countries, on the other hand, probably will attempt to improve the competitiveness of their traditional export sectors by providing additional incentives.

Policy Implications. In our judgment, the trends toward export-oriented growth in the Third World and slower import growth by the industrial countries probably will be a major source of confrontation between the Third World and industrial countries during the remainder of the decade. Several countries probably will increase their pressure on the United States and other industrial countries to further open their markets to Third World exports and to pursue policies that promote increased industrial country growth, even at the risk of inflation. Moreover, several export-oriented countries, principally in Latin America and Asia, probably will make greater use of competitive devaluations, export subsidies, countertrade deals, and other trade-distorting measures to expand their exports.

Another concern for the United States and its Western allies is the possibility that the Asian NICs may become an alternative source of supply of strategically sensitive, high-technology products to Communist countries. In particular, the Asian NICs are steadily progressing up the technology ladder in the production and export of more sophisticated manufactures. In our judgment, South Korea, Taiwan, and perhaps Singapore could compete with certain high-technology industries in Western countries in the next two to five years. Improvements in indigenous capabilities are most likely to be in microelectronics design and production, computer systems design and disk drive development, and telephone switching systems and millimeter wave communication devices. The Asian NICs are not members of COCOM. Although not at the leading edge of technology, the products that they could export would certainly enable the Communist countries to save on research and development (R&D) costs, shorten leadtimes, and reduce engineering risks and acquisition costs.[3] 25X1

Periodic Payment Crises Continue, Dependence on Concessional Aid Heightens

Trends in International Finance. Although the growth of their foreign indebtedness is projected to slow, the Third World's financial problems are not expected to diminish during the remainder of the decade. In our judgment, a major obstacle to an improved financial outlook is an anticipated reduction in the net flow of financial resources from Western and OPEC sources. The financial flows to the Third World include bank loans, private direct investment, bonds, government-guaranteed export credits, and official flows. Between 1970 and 1981, these capital flows steadily increased from an estimated $20 billion to almost $110 billion. This trend, however, came to an abrupt halt in 1982-83 when official flows stabilized and the growth of private flows began to decline (figure 2). We and most other observers believe it is unlikely that these official and private flows will quickly resume the growth rates established during the past decade. 25X1

Aside from credits extended in conjunction with IMF and World Bank adjustment and rescheduling packages, new commercial bank lending to the Third World is expected to be minimal during the remainder of the decade. In our judgment, the rate of growth in commercial bank lending to the major debtors will be curtailed by the reassessment of Third World creditworthiness, the withdrawal of relatively smaller banks from international lending, and continued high real interest rates. Moreover, the reduced volume of

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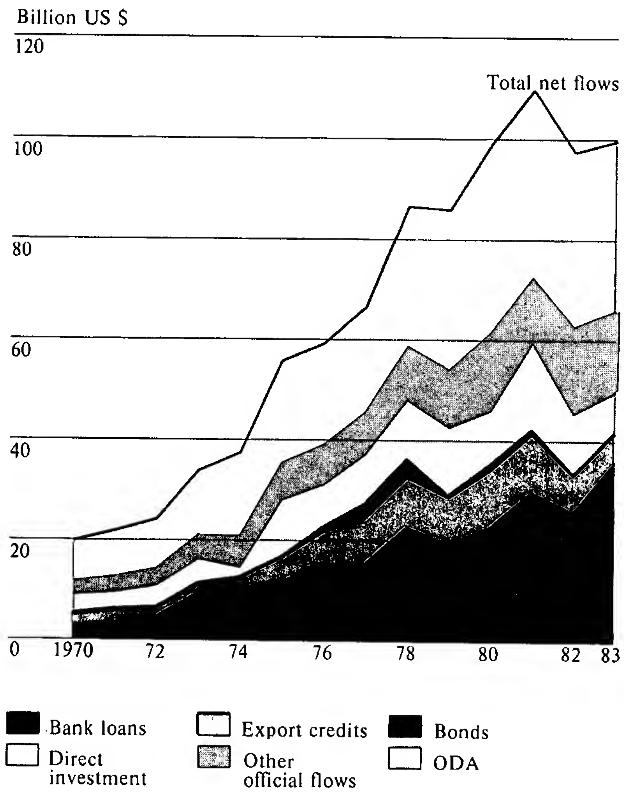
Figure 2
Net Financial Flows to the Third World, 1970-83



Source: OECD DAC Chairman's Report.

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lending will go almost exclusively to the relatively low-risk East Asian countries.

The outlook for the growth of official flows also is not good. Although the aid programs of a number of industrial countries are still increasing, the total official development assistance (ODA) received by the Third World from all sources has been declining since 1981 largely because of a sharp fall in OPEC aid. According to the OECD, ODA contributions from Western governments are not expected to increase any faster than the average growth rate of the industrial countries' economies, and OPEC contributions to ODA are expected to continue to fall below 1981 levels during the remainder of the decade. In addition, we believe other official flows provided to the Third World will not be as readily available as in the late 1970s largely because of budgetary constraints in both industrial countries and OPEC. 25X1

The anticipated continued slow growth of bank lending and lower levels of ODA may cause foreign direct investment to play a larger role relative to other forms of capital flows in meeting the Third World's future financial needs. As a result, we believe that the Third World's attitude toward foreign investment will gradually improve. As the competition for foreign investment intensifies, many Third World countries can be expected to pursue foreign investors more aggressively by offering substantial investment incentives. 25X1

Policy Implications. Through a combination of prudent economic management and continuing renegotiations with lender organizations, we believe the financially troubled nations will be able to muddle through the next five years without serious disruptions to the international financial system. Because of the fragile nature of their recovery process, however, we believe the recent pattern of periodic payment crises and IMF-organized rescue packages will continue. Moreover, the focus of these disruptions probably will broaden from the major debtors of Argentina, Brazil, and Mexico to second-tier debtor countries such as Egypt and Colombia, which are expected to incur mounting current account deficits and more serious debt repayment problems. As a result of this trend, we expect that the Third World's demands for lower international interest rates, lengthened debt repayment periods, and increased financial flows will not diminish during the remainder of the decade. 25X1

The investment incentives offered by the Third World are not expected to attract a substantial amount of additional foreign investment. In an attempt to retain some control over the incoming foreign investment, we believe many countries may impose performance requirements such as export quotas, employment targets, and local content requirements that are a major deterrent to potential foreign investors. Moreover, with the exception of investments in petroleum and other mineral extraction industries, most foreign investment probably will continue to be concentrated in the safer investment climates of Asia. 25X1

In our judgment, the Third World's demands for concessional aid flows will not diminish during the remainder of the decade. Historically, the poorest countries in the Third World have relied on official loans and grants for nearly all of their external financing. According to the forecasters' projections, the economic prospects for the poorer countries—particularly in Africa—are not going to improve. Real economic growth is expected to be slow, debt and debt service payments will continue to expand, and the current account deficit will steadily increase. We judge that this deterioration in Sub-Saharan Africa's economic performance will only heighten these countries' dependence on official loans and grants and, in
25X1 turn, lead to greater demands for concessional aid flows. [redacted]

Third World Stratification Accelerates, More Emphasis on Single Issues

Trends in North-South Relations. In our judgment, the North-South dialogue as constituted for the past decade has become an anachronism. Until the early 1970s, most developing countries had similar economic objectives and saw the "New International Economic Order" (NIEO) as a way to achieve them. They envisaged OPEC control of world oil prices and supply as the leverage needed to extract concessions on trade, finance, and aid from the industrial countries. Since then, however, OPEC's power has declined steeply, and the industrial nations have largely
25X1 ignored the NIEO. [redacted]

We believe a key factor affecting future North-South relations is the accelerating stratification of the Third World. The past decade has underscored the widely different abilities of developing countries to adapt to changes in the world economy. As a result, the economic interests of developing countries have become increasingly dissimilar. For example, the NICs and second-tier exporters of East Asia and Latin America are seeking to further penetrate OECD markets with high-value-added manufactures. Other developing countries face onerous debt burdens and feel that some accommodation with creditor governments on debt relief is a necessary condition for their future growth. Meanwhile, many Sub-Saharan African countries need massive aid to stave off economic disaster. The economic outlook suggests that these
25X1 differences will sharpen during the remainder of the decade. [redacted]

Policy Implications. In our judgment, increasing Third World stratification makes relatively small blocs or ad hoc groups of developing countries with common economic problems the most likely means for them to try to improve their negotiating position with industrial nations. We expect these groups to press the industrial countries to adopt policies tailored to their members' unique conditions. The Cartagena group of Latin American debtors is one such group. Others could crystallize around concessional aid and industrial country protectionism against manufactured exports. Because these special interests tend to be identified with specific areas of the world, we would expect to see growing regional divisions, with 25X1
the Latin Americans focusing on debt, the Africans on aid, and the Asians on protectionism. [redacted]

Prospects and Implications Under Alternative Scenarios

Economic Performance Probably Deteriorates

The Third World's economic outlook is fragile and can be altered by a variety of external shocks. These shocks include an increase in international interest rates, lower industrial country growth rates, heightened industrial country protectionism, as well as abrupt changes in world oil prices. According to the forecasters' analyses, these deviations from the baseline or "best guess" scenario probably would worsen the Third World's economic prospects (figure 3).[4] The most devastating effects on the Third World's economic performance would occur if US protectionism heightened or US economic growth slowed, according to the forecasters' projections.[5] The main impact of these disruptions is on the Third World's external sector. Under these scenarios, export earnings decline by some $35 billion annually, resulting in a larger current account deficit and an average annual increase of roughly $30 billion in the Third World's 25X1

[4] See appendix E for the empirical results of the alternative scenarios considered by the forecasters. [redacted]

[5] [redacted] analysis suggests that, over a two-year period, the effect on the Third World of a 1-percentage-point decline in OECD GNP growth rates would be roughly comparable to the effect of a 3-percentage-point increase in interest rates during the first year and a 2-percentage-point increase during the second year. [redacted] 25X1

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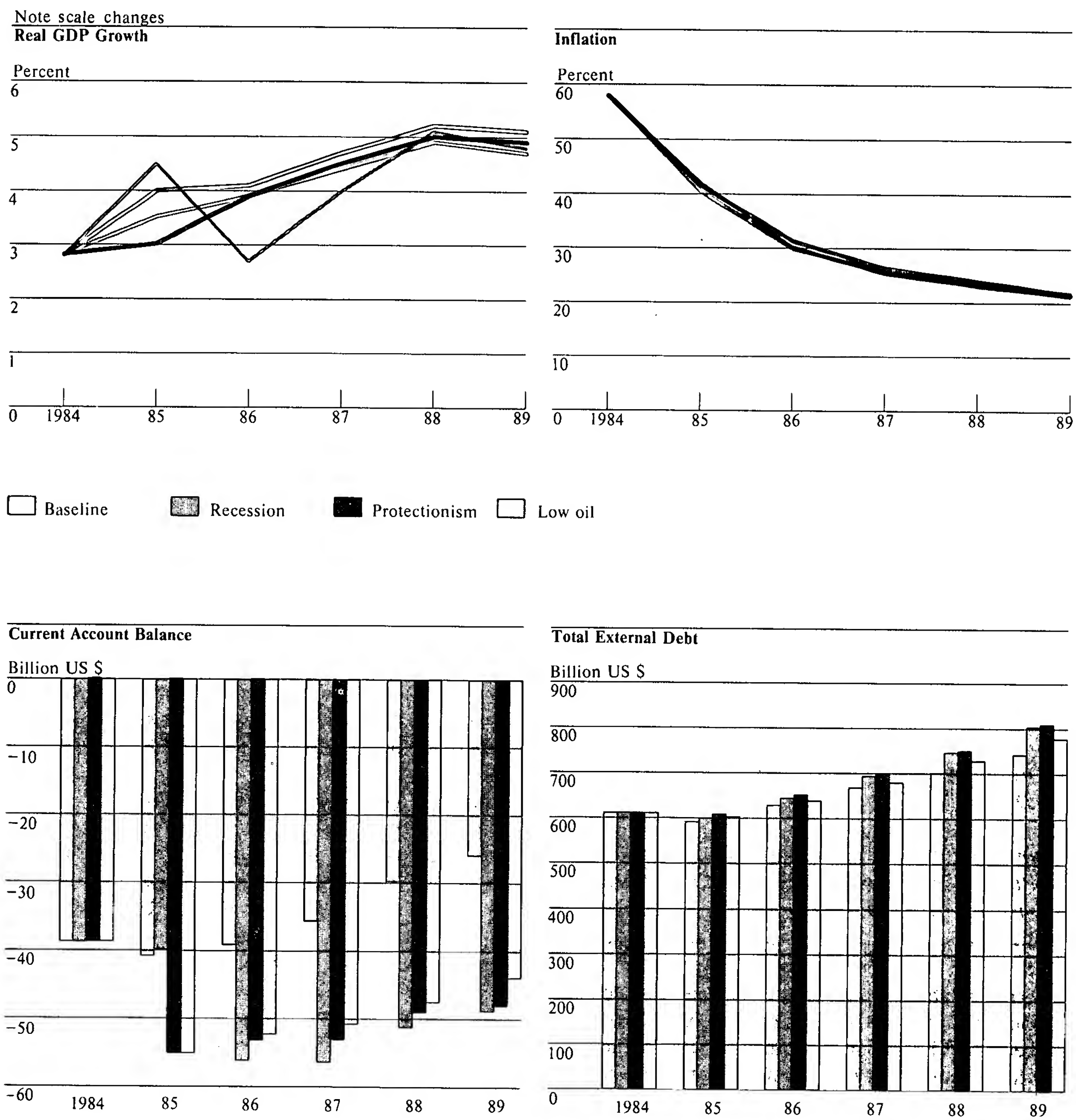
Figure 3
Third World Economic Prospects: Alternative Scenarios, 1984-1989



Source: Appendix E, table 12, DRI Inc.

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Third World Economic Prospects: Assumptions Underlying the Alternative Scenarios

The alternative scenarios considered by the forecasting services include a recession in the United States, an increase in US protectionism, a decline in world oil prices, rising international interest rates, and a relaxation in debtor country progress on their austerity programs. The specific assumptions behind each scenario are:

- US recession. *Assumes tight monetary policies and a growing federal deficit clash to push the US economy into a recession in 1986. US interest rates rise sharply, and the growth of US imports slows. The US economy then grows more slowly over the remainder of the decade.*
- Protectionism. *Assumes that protectionist measures implemented in the United States result in a 10-percent cut in US imports beginning in 1985.*
- Low oil prices. *Assumes a $5 per barrel cut in oil prices starting in the first quarter of 1985.*
- Higher interest rates. *Assumes international interest rates rise 1 percentage point above baseline interest rates beginning in 1985.*
- Relaxation of austerity. *Assumes the debtor country governments increase the money supply by 20 percent and that government expenditure's share of GDP rises by 10 percent in 1985.*

Each alternative scenario also assumes that no major political changes are triggered and that the needed financing is forthcoming. [redacted]

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external indebtedness relative to the baseline scenario. If some combination of these external shocks occurred, the Third World's economic performance would be significantly worse than what occurs under the protectionism and recession scenarios. [redacted]

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In our judgment, the deterioration caused by these scenarios would tip the Third World's outlook from a muddling-through scenario toward a situation of significant economic difficulties for most Third World countries. Under DRI's *protectionism* scenario, for example, the export-based growth of many Asian and Latin American economies would be derailed by a protectionism-induced, 10-percent cut in US imports. The debtor countries' economic growth rate would plummet to only 0.5 percent in 1985. To finance the ensuing $25 billion gap in their current account deficit, borrowing would accelerate and by 1990 the debtor countries' foreign indebtedness would rise to $520 billion, roughly $40 billion higher than the baseline outlook. For the Asian NICs, real economic growth suffers a 2.2-percentage-point decline in 1985 and averages only 5.6 percent for the remainder of the decade, well below the baseline average of 6.5 percent. For the oil and nonoil commodity exporters, the increased protectionism would reduce their real economic growth by 0.5 and 0.9 percentage points, respectively, in 1985. The forecasters expect, however, that these countries would quickly locate alternative markets for their exports and resume the performance projected under the baseline scenario. [redacted] 25X1

According to the *recession* scenario, the Third World economies initially benefit from the upward cyclical movement in the US economy in 1985. However, their growth rates suffer a sharp drop in 1986, as US economic growth begins to decline, and do not begin to approach the baseline rates until 1988:

- Although medium-term interest rates decline, the effects on trade are so dramatic that the debtor countries' average debt service ratio increases roughly 10 percentage points to 82 percent of goods and services exports, according to [redacted] projections. 25X1
- The oil exporters' total exports would decline by about $4 billion from the baseline scenario, resulting in an almost equal widening of their current account deficit from the baseline.

Relaxation of Austerity Policies: Impact on Major Debtors

According to DRI and SRI projections, a relaxation of the debtor countries' austerity policies produces striking results. In particular, if the debtor countries increase government expenditures and the money supply, their real economic growth would gradually accelerate. For the 1985-89 period, their real economic growth would average 3.7 percent, which is above the baseline projection of 2.9 percent (appendix E, table E-1). 25X1

This growth, however, does not come without longer term costs. Under such a scenario, debtor country imports grow at a faster pace than the baseline scenario. Exports, on the other hand, only slightly increase because of the debtors' limited access to foreign markets and higher rates of domestic inflation, thereby weakening their trade and current account balances. Assuming no constraints on borrowing under this scenario, DRI projects total foreign indebtedness would increase by $46 billion more than the baseline scenario in 1989, with an accompanying deterioration of the debt service ratio. This deterioration is worse than what occurs under the recession and protectionism scenarios. 25X1

The near-term implication of this scenario, according to DRI and SRI, is that the relaxed austerity measures would accelerate growth and probably allow debtor country governments to maintain political stability. We believe the longer term implication of the scenario, however, is that the creditor banks would either increase the spread on their loans or cut off new lending to these countries. As a consequence, the debtor countries would require substantial economic and financial assistance to offset the effects of their soaring external debt. 25X1

- The Asian NICs' growth rate falls from 6.3 percent in the baseline to 3.6 percent in 1986 because of their strong trade ties with the United States. The NICs, however, are able to recover quickly and post growth rates in 1988 that equal the baseline rates.

The recession scenario has only minor effects on the nonoil exporters because most of these countries rely on primary commodity exports less sensitive to fluctuations in world demand. 25X1

Greater Problems for the United States

In our judgment, the deterioration that occurs in the Third World's economic performance under these alternative scenarios would have several important economic implications for the United States and its industrial allies. Although the importance attached to each implication will vary depending on the cause of the disruption, these implications probably would evolve around a rise in mercantilist trade policies, renewed financial crises, the threatened political stability of some Third World governments, and increased cooperation among the developing countries (table 3). 25X1

In response to a significant deterioration in their economic performance, many Third World countries can be expected to adopt a more mercantilist approach to trade. In particular, we believe many of the NICs, second-tier exporters of manufactures, and debt-troubled countries probably would take whatever means necessary—legitimate or not—to maintain or expand their market shares. Under such circumstances, greater use of export subsidies, dumping, and other predatory trade practices would be expected. 25X1

If the economic deterioration is perceived by the Third World to be the result of policies implemented by industrial countries, such as in the recession and protectionist scenarios, the Third World probably would bring increasing pressure on industrial country governments to stimulate their economies and open their markets to Third World exports. In addition to calls for the elimination or reduction of protectionist policies, Third World governments may also seek targeted trade concessions to compensate for specific trade losses. Moreover, in retaliation or as a means to force industrial country governments to open their

Table 3
United States: Potential Implications of Selected Alternative Scenarios

Alternative Scenarios	Trade Relations	Financial Concerns	Other
US recession [a]	Asian NICs and debtor countries use whatever means necessary—legitimate or not—to maintain or expand their market shares. Increased Third World demands for targeted trade concessions to compensate for trade losses.	US banks would be forced to place a larger number of loans on nonperforming status and reorder their lending practices and policies. Renegotiation of debt repayment schedules becomes more frequent.	Increased Third World demands, particularly by Africa, for additional bilateral and multilateral aid programs. Anti-US sentiments may shift from rhetorical criticism to hostile actions. Deterioration in economic performance may be a rallying point for Third World solidarity and greater cooperation among developing countries.
Protectionism [b]	Demands for elimination or reduction of protectionist measures intensify. The Asian NICs and debtor countries may restrict US imports. Asian NICs and debtor countries use whatever means necessary—legitimate or not—to maintain or expand their market shares. Increased Third World demands for targeted trade concessions to compensate for trade losses.	US banks would be forced to place a larger number of loans on nonperforming status and reorder their lending practices and policies. Renegotiation of debt repayment schedules becomes more frequent.	Increased Third World demands, particularly by Africa, for additional bilateral and multilateral aid programs. Anti-US sentiments may shift from rhetorical criticism to hostile actions. Deterioration in economic performance may be a rallying point for Third World solidarity and greater cooperation among developing countries.
Low oil prices [c]	More difficulty for OPEC in enforcing cartel pricing practices.	Non-Arab producers, such as Mexico and Ecuador, may require additional debt restructuring.	The ability of such radical Arab producers as Algeria, Iran, and Libya to advance anti-US objectives is reduced.

[a] Assumes the US economy enters a recession in 1986 and then grows slower over the remainder of the decade.
[b] Assumes a 10-percent cut in US imports beginning in 1985.
[c] Assumes a $5 per barrel cut in oil prices starting the first quarter of 1985.

Note: The forecasts under the alternative scenarios suggest that slower industrial country growth or rising trade protectionism probably would tip the Third World's outlook from a muddling through scenario toward one of greater economic disruptions.

25X1

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markets to imports, some countries might impose restrictions on selected industrial country exports.

The main financial implication of the alternative scenarios is that a deterioration in the Third World's economic outlook probably would prevent the debtor nations from substantially easing their debt payment positions by the end of the decade. In particular, under the recession and protectionism scenarios, debtor country current account balances deteriorate by roughly $10 billion from the baseline forecast and the debt service ratio increases by almost 16 percentage points to 78 percent of annual good and services exports. In our judgment, these changes could trigger renewed financial crises for several high-debt countries during the latter half of the 1980s. DRI believes the deterioration is so immediate that massive renegotiations of debt repayment would have to occur by 1986 in the more seriously affected countries, which already have been through major debt restructuring exercises. Under the recession scenario, these debtor countries include Argentina and the Philippines because of the severe impact of the higher interest rates on their debt service payments. Under the protectionism scenario, these debtor include Brazil, Chile, and Mexico because of their strong trade linkages to the United States.

25X1

In response to a marked deterioration in their economic performance, we believe several Third World governments may implement measures that provide a rallying point for public opposition. In the extreme, there is a possibility that the political stability of some Third World governments may be threatened. Latin America is a region of particular concern. The economic recovery projected for this region is fragile at best. According to the forecasters' projections, a deterioration such as that caused by the recession and protectionism scenarios would increase this region's average current account deficit approximately 40 percent beyond the baseline projection for the forecast period. This deterioration, in our judgment, would make it extremely difficult for many of the debtor countries to continue pursuing austerity policies and to maintain political stability.

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A primary consideration with respect to North-South relations is that a marked deterioration in the Third World's economic performance may serve as a catalyst for collective action by the Third World against the United States. One issue around which the Third World might rally is external debt. Thus far the debt problems have been handled on a case-by-case basis. A marked deterioration in their economic performance, however, may cause many countries to band together under such Third World initiatives as the Cartagena group to gain bargaining strength in dealing with their major creditors.

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The Third World may also see increased cooperation among themselves as a means to increase their exports. In our judgment, the basis for this broadened economic cooperation has already been established. During the last several years, Third World countries laid the framework for a system of trade preferences among themselves. In addition, linkages between countries have grown—Indian multinational corporations have established operations in Southeast Asia and Africa, Brazil has developed close economic relationships with several African countries, and South Korean construction firms have been very active in the Middle East. If it should become exceedingly difficult for Third World countries to export to industrial country markets, we believe there will be attempts to increase greater South-South trade.

25X1

In our judgment, several other developments may occur under the alternative scenarios that have serious repercussions for the United States. In particular:

- *Third World drug trafficking becomes more widespread.* In response to depressed economic conditions, we believe drug production in the Third World probably would increase. The primary forces behind this are the relatively higher economic returns for drug crops than other major agricultural commodities and the reduced enforcement efforts caused by government budget reductions. Countries most vulnerable to growing narcotic activity include Mexico, Colombia, Peru, Bolivia, Belize, Costa Rica, and Jamaica.

- *Inflow of illegal aliens accelerates.* We judge the widening gap in economic growth that emerges between the United States and the Third World under the alternative scenarios would cause a large number of migrants to illegally enter the United States. Although these migrants would come from throughout Latin America, the primary influx probably would originate from Mexico.

- *Anti-American criticism heightens.* Under the baseline scenario, Third World anti-Western actions are limited to rhetorical criticism. We believe the reduced standard of living associated with the alternative scenarios probably would give rise to more frequent acts of random violence and politically inspired uprisings that involve Americans. Under such circumstances, there would be a heightened concern for the safety of Americans and US firms
25X1 operating in certain Third World countries.

A Policy Dilemma

Third World countries are keenly aware that their economic prospects depend in large measure on industrial country economic policies. This importance has been reinforced by the US role as the main locomotive of growth during the current world recovery. As a consequence, we believe the Third World will bring increasing political pressure on the United States during the remainder of this decade to assume the responsibility of an implicit world economic manager. The focus of this pressure will take a predictable direction—the US economy should be managed with
25X1 international economic goals in mind.

In our judgment, many of the international objectives sought by the Third World will result in a conflict between Third World needs and US domestic concerns. The Third World, for example, probably will insist that the United States pursue fiscal and monetary policies that sustain high economic growth at the risk of inflation. Moreover, the Third World probably will seek increased official lending at lower interest rates and greater access to industrial country markets through the retirement of their "older" textile, footwear, and other smoke-stack industries. Given the Third World's prospects for a fragile economic recovery, we believe it is unlikely that these pressures will diminish during the remainder of this decade. 25X1

Appendix A

Methodological Note

The economic outlook presented for the Third World is a consensus of forecasts prepared on contract by Data Resources Inc., Chase Econometrics, and SRI International. The projections are presented by both regional and functional country groupings. The regional categorization takes into account the commonality of influences caused by the geographic location of a country and reflects both intraregional trade and intraregional conflicts. The functional categorization takes into account differences between countries because of natural resources and economic and political criteria. The regional classifications are inclusive of all Third World countries considered by the forecasting services; the functional groupings are presented for illustrative purposes and are neither all inclusive nor mutually exclusive. As a result, certain countries may be included in more than one functional group. [redacted] 25X1

In most instances the magnitude and direction of change of each forecasting services' projections parallel each other. However, wide variations are observed in the current account, total external debt, and debt service projections. These differences are attributed to three factors:

- *Country sample size.* Each forecasting service used a different sample of countries from which to base its economic forecasts. Whereas DRI and Chase forecasts are based on a sample of 26 and 36 countries, respectively, [redacted] used a sample of 128 countries. 25X1

- *Baseline assumptions.* Each consulting services' projections are underpinned by a series of assumptions about world economic conditions during the remainder of the decade. These assumptions vary as to the variables selected and the values assigned to these variables. This is particularly true of the assumptions concerning OECD consumer prices, OECD trade balances, and oil and nonoil commodity prices.

- *Estimation techniques.* The manner in which the forecasts were derived also differ by consulting service. DRI and Chase have detailed behavioral econometric models for each country included in their sample and use these to derive their economic projections. SRI, on the other hand, does not have a formal econometric model. Its projections are an amalgam of several official projections, adjusted to take account of differences between their assumptions and those of other models. [redacted] 25X1

The following appendixes describe in detail the differences between each consulting services' projections. Appendixes B and C provide a detailed listing of the countries included in each services' regional and functional country grouping and the assumptions underlying their baseline forecasts. Appendixes D and E present the results of each services' "best guess" and "alternative" scenario projections. [redacted] 25X1

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Appendix B

Third World: Functional and Regional Classification Schemes

Table B-1
Data Resources Incorporated

Functional	Regional: Asia	Regional: Latin America	Regional: Africa and Middle East
Asian NICs	Hong Kong Singapore South Korea Taiwan		
Debt-constrained countries	Philippines	Argentina Brazil Chile Colombia Ecuador Mexico Peru Venezuela	Nigeria
Oil exporters	Indonesia	Ecuador Mexico Venezuela	Iraq Kuwait Nigeria Saudi Arabia
Nonoil commodity exporters	China India Malaysia Philippines Thailand	Chile Colombia Peru	Algeria Egypt Morocco

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Table B-2
Chase Econometrics

Functional	Regional: Far East	Regional: Latin America	Regional: Middle East and North Africa	Regional: Sub-Saharan Africa
Asian NICs	Hong Kong Singapore South Korea Taiwan			
Major commercial borrowers	Malaysia Philippines South Korea Thailand	Argentina Bolivia Brazil Chile Colombia Ecuador Mexico Peru Uruguay Venezuela	Morocco	Nigeria Zaire
Financially vulnerable countries	Pakistan Philippines Thailand	Argentina Bolivia Brazil Chile Colombia Ecuador Mexico Peru Uruguay Venezuela	Egypt	Zaire Zambia Zimbabwe
Oil exporters	Indonesia Malaysia	Ecuador Mexico Venezuela	Egypt Iran Iraq Kuwait Libya Saudi Arabia United Arab Emirates	Nigeria
Nonoil commodity exporters	China India Pakistan Philippines Thailand	Argentina Bolivia Chile Colombia Peru Uruguay	Morocco Tunisia	Ivory Coast Kenya Zaire Zambia Zimbabwe
Aid-dependent countries	India Indonesia Pakistan		Egypt	Ivory Coast Kenya Zambia Zimbabwe

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Table B-3
SRI International

Functional	Regional					
	Latin America	Africa	South Asia	East Asia	Middle East	Other
Major exporters of manufactures	Argentina Brazil	South Africa		Hong Kong Singapore South Korea Taiwan	Israel	Greece Portugal Yugoslavia
Major debtors	Argentina Brazil Mexico Venezuela			Indonesia Philippines South Korea		
Oil exporters	Venezuela	Nigeria		Indonesia	Algeria Iran Iraq Kuwait Libya Oman Qatar Saudi Arabia United Arab Emirates	
Low-income countries	Haiti	Benin Burkina Burundi Cape Verde Central African Republic Chad Comoros Ethiopia Gambia Guinea Guinea-Bissau Kenya Lesotho Madagascar Malawi Mali Mauritania Niger Rwanda Senegal Sierra Leone Somalia Sudan Tanzania Togo Uganda Zaire	Afghanistan Bangladesh Bhutan Burma India Nepal Pakistan Sri Lanka	Solomon Islands Vanuatu		

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Appendix C

OECD: Baseline Assumptions, 1984-89

Baseline Assumption	1984	1985	1986	1987	1988	1989	Average Annual Growth Rate,[a] 1985-89
OECD real GNP growth *(percent)*							
OECD							
DRI	5.2	2.7	2.5	3.0	3.3	3.3	3.0
Chase	4.5	2.9	2.3	2.7	2.7	2.9	2.7
SRI [b]	4.0	3.0	3.5	3.5	3.5	3.5	3.4
Of which:							
United States							
DRI	7.3	2.7	1.9	3.9	3.8	3.1	3.1
Chase	7.0	3.3	2.5	3.0	3.1	3.0	3.0
SRI [b]	5.7	3.5	3.0	3.0	3.0	3.0	3.1
Japan							
DRI	4.5	3.5	3.2	4.1	5.1	5.7	4.3
Chase	5.5	4.2	3.4	3.2	2.6	2.9	3.3
SRI [b]	NA	NA	NA	NA	NA	NA	NA
OECD consumer price inflation *(percent)*							
OECD							
DRI	NA	6.8	8.4	6.6	5.1	5.0	6.4
Chase	5.1	5.2	5.9	6.4	6.3	6.0	6.0
SRI	5.5	6.0	6.5	6.5	6.5	6.5	6.4
Of which:							
United States							
DRI	4.2	3.7	4.3	4.9	5.4	5.8	4.8
Chase	4.3	4.6	5.7	6.1	6.0	5.3	5.5
SRI	NA	NA	NA	NA	NA	NA	NA
Japan							
DRI	2.5	2.6	2.0	1.9	1.8	1.7	2.0
Chase	2.1	2.5	3.7	5.0	4.9	4.8	4.2
SRI	NA	NA	NA	NA	NA	NA	NA

OECD: Baseline Assumptions, 1984-89 (continued)

Baseline Assumption	1984	1985	1986	1987	1988	1989	Average Annual Growth Rate,[a] 1985-89
OECD trade balances *(billion US $)*							
OECD							
DRI	NA	NA	NA	NA	NA	NA	NA
Chase	−81	−71	−68	−63	−77	−87	−73
SRI	NA	NA	NA	NA	NA	NA	NA
Of which:							
United States							
DRI	−116	−128	−140	−151	−165	−180	−153
Chase	−105	−109	−119	−123	−137	−145	−127
SRI	NA	NA	NA	NA	NA	NA	NA
Japan							
DRI	44	46	64	77	89	109	77
Chase	30	32	38	40	38	37	37
SRI	NA	NA	NA	NA	NA	NA	NA
Interest rates and commodity prices *(percent)*							
Interest rates [c]							
DRI	11.5	13.3	12.5	11.6	11.2	11.2	12.0
Chase	11.6	13.5	13.3	11.2	10.3	9.8	11.6
SRI	11.0	12.0	12.5	11.5	11.5	11.5	11.8
Nonoil commodity prices [d]							
DRI	4.4	6.4	17.0	14.4	9.5	8.3	11.1
Chase	2.0	2.6	6.5	5.5	7.3	10.4	6.4
SRI	8.0	8.3	6.8	6.4	5.3	5.0	6.4
Oil prices [e]							
DRI	−3.0	−0.2	2.5	5.9	6.7	9.1	4.7
Chase	−1.7	−2.5	0.4	7.2	7.9	8.0	4.1
SRI	NEGL	6.0	6.4	6.6	6.5	6.4	6.4

[a] For OECD trade balance, this column shows annual average.
[b] SRI forecast is for GNP.
[c] DRI, three-month Eurodollar; Chase, three-month LIBOR; and SRI, six-month LIBOR.
[d] Based on a 20-commodity index.
[e] Import prices for petroleum and derivatives.

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Appendix D

Third World Economic Outlook: Baseline Forecasts, 1984-89

Table D-1
Third World: Real GNP Growth, 1984-89

Percent

	1984 [a]	1985 [b]	1986 [b]	1987 [b]	1988 [b]	1989 [b]	Average Annual Growth Rate, 1985-89
DRI projections [c]							
LDC aggregate	2.8	4.0	4.1	4.7	5.2	5.1	4.6
Latin America	1.7	2.2	3.1	3.5	4.5	4.9	3.6
Africa and Middle East	1.5	3.5	3.8	4.1	5.8	5.5	4.5
Asia	5.8	5.2	4.6	4.9	5.0	4.6	4.9
Of which:							
Asian NICs	8.3	6.8	6.3	7.0	6.6	5.8	6.5
Debt-constrained LDCs	1.1	1.4	2.3	3.1	3.8	4.1	2.9
Oil exporters	1.3	2.7	3.0	3.8	4.7	4.4	3.7
Nonoil commodity exporters	2.5	3.6	3.9	4.4	5.2	5.5	4.5
Chase projections							
LDC aggregate	2.7	4.3	4.3	4.3	4.6	4.4	4.4
Latin America	1.3	3.2	3.2	3.5	4.3	4.2	3.7
Sub-Saharan Africa	−1.8	1.1	2.8	2.5	3.4	3.4	2.6
Middle East and North Africa	0.2	3.8	4.9	4.2	4.1	3.8	4.2
Far East	5.5	5.7	5.0	5.0	5.1	4.9	5.1
Of which:							
Asian NICs	7.7	6.7	7.0	7.6	7.5	7.0	7.2
Major commercial borrowers	1.6	3.5	3.6	3.8	4.6	4.5	4.0
Financially vulnerable LDCs	1.2	3.2	3.3	3.5	4.2	4.1	3.7
Oil exporters	0.9	3.9	4.9	4.5	4.8	4.3	4.5
Nonoil commodity exporters	3.3	4.2	3.5	3.6	4.0	4.1	3.9
Aid-dependent countries	5.2	5.4	4.9	4.7	4.7	4.6	4.9
SRI projections							
LDC aggregate	3.7	4.2	4.4	4.5	4.7	4.7	4.5
Latin America	1.1	3.1	3.0	3.0	3.0	3.2	3.1
Africa	3.2	2.9	3.0	3.2	3.2	3.0	3.1
Middle East	4.0	4.3	4.3	4.4	4.5	4.5	4.4
East Asia	6.9	6.5	6.5	6.7	6.8	7.0	6.7
South Asia	5.2	5.2	5.0	4.8	4.5	4.5	4.8
Other	2.3	2.9	3.3	3.5	3.5	3.5	3.3

Table D-1
Third World: Real GNP Growth, 1984-89 (continued)

Percent

	1984 [a]	1985 [b]	1986 [b]	1987 [b]	1988 [b]	1989 [b]	Average Annual Growth Rate, 1985-89
Of which:							
Major exporters of manufactures	2.6	3.4	4.0	4.5	5.0	5.5	4.5
Major debtors	1.8	3.8	3.5	3.5	3.5	3.6	3.6
Oil exporters	3.8	4.2	4.2	4.5	4.5	4.7	4.4
Low-income countries	4.0	4.1	4.1	4.2	4.2	4.4	4.2

[a] Estimated.
[b] Projected.
[c] Projections are for real GDP growth.

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Table D-2
Third World: Consumer Price Inflation, 1984-89

Percent

	1984 [a]	1985 [b]	1986 [b]	1987 [b]	1988 [b]	1989 [b]	Average Annual Growth Rate, 1985-89
DRI projections							
LDC aggregate	57.9	41.4	30.2	25.4	23.5	21.4	28.2
Latin America	198.2	148.1	116.6	94.5	83.7	75.0	103.6
Africa and Middle East	8.5	7.5	6.3	6.0	5.8	6.3	6.4
Asia	8.3	10.4	8.7	8.2	8.1	8.2	8.7
Of which:							
Asian NICs	5.1	5.3	5.7	5.7	5.6	5.7	5.6
Debt-constrained LDCs	110.9	90.8	63.3	51.2	46.7	41.4	57.5
Oil exporters	22.0	19.6	18.0	16.5	15.5	15.0	16.9
Nonoil commodity exporters	37.3	28.6	22.5	19.0	17.5	15.3	20.5
Chase projections							
LDC aggregate	44.6	37.8	28.9	23.8	21.8	20.4	26.4
Latin America	150.0	123.2	88.5	68.7	59.3	52.8	76.6
Sub-Saharan Africa	28.4	27.4	25.9	18.5	16.0	14.5	20.3
Middle East and North Africa	11.0	9.2	8.1	8.3	7.1	7.6	8.1
Far East	7.8	7.1	6.4	6.5	6.4	6.7	6.6
Of which:							
Asian NICs	4.1	5.3	5.4	5.7	5.7	6.2	5.7
Major commercial borrowers	102.0	84.3	61.7	48.2	42.2	37.6	53.6
Financially vulnerable LDCs	112.7	93.3	68.5	54.0	47.5	42.7	61.2
Oil exporters	25.8	19.6	17.1	15.7	15.1	14.1	16.3
Nonoil commodity exporters	66.4	57.9	43.4	34.6	31.2	28.6	39.0
Aid-dependent countries	11.9	11.3	10.1	10.0	9.9	9.8	10.2
SRI projections							
LDC aggregate	35.6	30.0	32.0	35.0	38.0	40.0	34.9
Latin America	119.5	85.0	90.0	95.0	95.0	100.0	93.0
Africa	17.0	20.0	22.0	23.0	25.0	30.0	24.0
Middle East	44.3	45.0	40.0	40.0	35.0	35.0	39.0
East Asia	3.7	4.5	5.0	5.5	5.5	5.5	5.2
South Asia	6.3	7.5	8.0	9.0	9.5	9.5	8.7
Other	30.3	20.5	23.0	27.0	27.0	30.0	25.5
Of which:							
Major exporters of manufactures	101.1	80.0	85.0	85.0	85.0	90.0	85.0
Major debtors	96.1	60.0	55.0	55.0	60.0	60.0	58.0
Oil exporters	10.8	11.0	11.5	12.0	12.5	13.5	12.1
Low-income countries	6.9	6.5	7.0	7.5	9.0	9.5	7.9

[a] Estimated.
[b] Projected.

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Table D-3
Third World: Trade Balance, 1984-89

Billion US $

	1984 [a]	1985 [b]	1986 [b]	1987 [b]	1988 [b]	1989 [b]	Annual Average, 1985-89
DRI projections							
LDC aggregate	62.0	46.0	49.0	52.0	69.0	79.0	59.0
Latin America	36.0	40.0	41.0	44.0	45.0	47.0	43.4
Africa and Middle East	35.0	18.0	20.0	26.0	35.0	44.0	28.6
Asia	−9.0	−11.0	−12.0	−17.0	−11.0	−11.0	−12.4
Of which:							
Asian NICs	−10.0	−12.0	−14.0	−14.0	−14.0	−17.0	−14.2
Debt-constrained LDCs	35.0	40.0	42.0	46.0	48.0	51.0	45.4
Oil exporters	41.0	40.0	44.0	53.0	63.0	74.0	54.8
Nonoil commodity exporters	1.0	1.0	1.0	NEGL	1.0	2.0	1.0
Chase projections							
LDC aggregate	61.8	67.2	78.4	86.9	96.2	100.9	85.9
Latin America	38.3	37.3	39.2	40.8	42.3	46.4	41.2
Sub-Saharan Africa	5.1	6.3	6.6	6.1	6.7	6.4	6.4
Middle East and Africa	25.5	32.0	41.6	47.7	54.8	57.8	46.8
Far East	−7.0	−8.3	−9.1	−7.6	−7.6	−9.7	−8.5
Of which:							
Asian NICs	0.1	−1.2	−2.7	−1.7	−2.0	−3.9	−2.3
Major commercial borrowers	40.6	41.9	43.8	45.9	46.2	51.3	45.8
Financially vulnerable LDCs	32.6	33.1	34.7	35.1	36.4	39.0	35.7
Oil exporters	57.6	62.9	72.1	78.0	87.6	94.5	79.0
Nonoil commodity exporters	4.1	5.5	9.0	10.7	10.7	10.4	9.3
Aid-dependent countries	−9.6	−9.0	−8.9	−8.9	−7.9	−7.0	−8.3
SRI projections							
LDC aggregate	42.4	52.0	60.0	62.0	67.0	71.0	62.4
Latin America	25.4	29.0	31.0	33.0	38.0	39.0	34.0
Africa	−2.1	−1.5	−2.0	−2.0	−2.5	−2.5	−2.1
Middle East	41.0	45.0	42.0	41.0	40.0	40.0	41.6
East Asia	−8.0	−8.8	−8.0	−7.5	−6.5	−6.0	−7.4
South Asia	−4.5	−4.2	−4.0	−4.5	−5.0	−5.5	−4.6
Other	−9.4	−8.8	−1.0	NEGL	2.0	5.0	0.6
Of which:							
Major exporters of manufactures	8.4	13.0	14.0	15.5	18.0	22.0	16.5
Major debtors	37.5	42.0	40.0	45.0	48.0	50.0	45.0
Oil exporters	52.9	55.0	50.0	45.0	45.0	40.0	47.0
Low-income countries	−11.2	−11.3	−12.5	−14.0	−15.0	−18.0	−14.2

[a] Estimated.
[b] Projected.

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Table D-4
Third World: Current Account Balance, 1984-89

Billion US $

	1984 [a]	1985 [b]	1986 [b]	1987 [b]	1988 [b]	1989 [b]	Annual Average, 1985-89
DRI projections							
LDC aggregate	−38.7	−40.8	−39.1	−35.6	−29.8	−26.0	−34.3
Latin America	−6.2	−13.3	−13.8	−15.3	−18.1	−19.0	−15.9
Africa and Middle East	−21.7	−16.4	−18.1	−14.8	−7.2	−3.8	−12.1
Asia	−10.8	−11.1	−7.2	−5.5	−4.5	−3.2	−6.3
Of which:							
Asian NICs	0.3	−3.4	−3.3	−2.5	−2.0	−2.0	−2.6
Debt-constrained LDCs	−10.3	−17.8	−17.9	−18.6	−20.6	−21.7	−19.3
Oil exporters	−20.3	−16.7	−15.4	−12.0	−7.5	−2.6	−10.8
Nonoil commodity exporters	−15.2	−13.3	−13.6	−13.8	−12.7	−12.1	−13.1
Chase projections							
LDC aggregate	−26.7	−26.3	−16.2	−7.4	−3.5	−3.1	−11.3
Latin America	−8.3	−18.5	−15.5	−12.1	−11.1	−8.1	−13.1
Sub-Saharan Africa	−2.9	−2.5	−3.0	−3.5	−3.2	−3.7	−3.2
Middle East and Africa	−7.4	3.0	12.4	18.4	21.6	21.9	15.5
Far East	−8.0	−8.3	−10.1	−10.1	−10.7	−13.2	−10.5
Of which:							
Asian NICs	4.3	4.4	4.8	6.4	6.2	4.5	5.3
Major commercial borrowers	−21.2	−29.2	−25.7	−22.0	−20.5	−17.9	−23.1
Financially vulnerable LDCs	−16.0	−25.0	−22.4	−19.6	−18.6	−16.9	−20.5
Oil exporters	−6.6	−1.4	7.3	13.8	17.9	20.6	11.6
Nonoil commodity exporters	−24.4	−29.3	−28.2	−27.6	−27.6	−28.3	−28.2
Aid-dependent countries	−11.7	−11.6	−12.4	−12.8	−12.2	−11.8	−12.2
SRI projections							
LDC aggregate	−54.0	−57.0	−70.0	−80.0	−100.0	−110.0	−83.4
Latin America	−19.5	−21.0	−27.0	−32.0	−36.0	−38.0	−30.8
Africa	−9.4	−10.0	−10.5	−10.8	−11.0	−11.5	−10.8
Middle East	−17.5	−18.5	−21.0	−23.0	−33.0	−38.0	−26.7
East Asia	−3.8	−2.7	−3.0	−3.5	−3.0	−3.0	−3.0
South Asia	−2.4	−3.8	−5.5	−7.0	−8.5	−10.0	−7.0
Other	−1.4	−1.0	−3.0	−3.7	−8.5	−9.5	−5.1
Of which:							
Major exporters of manufactures	−8.6	−7.5	−15.0	−25.0	−30.0	−35.0	−22.5
Major debtors	−11.5	−20.0	−30.0	−40.0	−45.0	−55.0	−38.0
Oil exporters	−8.0	−10.0	−12.0	−14.0	−16.0	−20.0	−14.4
Low-income countries	−19.2	−20.0	−25.0	−25.0	−25.0	−30.0	−25.0

[a] Estimated.
[b] Projected.

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Table D-5
Third World: Total External Debt, 1984-89

Billion US $

	1984 [a]	1985 [b]	1986 [b]	1987 [b]	1988 [b]	1989 [b]	Annual Average, 1985-89
DRI projections							
LDC aggregate	610.6	597.1	630.7	724.9	762.7	804.8	669.4
Latin America	318.5	335.1	351.3	368.7	390.1	411.0	371.2
Africa and Middle East [c]	114.6	73.4	79.9	85.9	90.6	96.9	85.3
Asia [d]	177.5	188.6	199.5	211.1	224.3	241.0	212.9
Of which:							
Asian NICs	60.2	60.5	63.4	67.1	73.3	81.5	69.2
Debt-constrained LDCs	363.7	386.4	406.9	428.8	453.4	477.9	430.7
Oil exporters [e]	184.8	199.0	210.1	220.6	232.4	245.6	221.5
Nonoil commodity exporters [f]	135.2	146.2	156.1	166.6	175.9	184.4	165.8
Chase projections							
LDC aggregate	613.5	NA	NA	NA	NA	804.2	NA
Latin America	336.2	NA	NA	NA	NA	384.7	NA
Middle East and Africa	105.3	NA	NA	NA,	NA	177.2	NA
Asia	172.0	NA	NA	NA	NA	242.3	NA
Of which:							
Asian NICs	NA	NA	NA	NA	NA	NA	NA
Major commercial borrowers	470.8	499.7	523.4	544.2	564.0	582.2	542.7
Financially vulnerable LDCs	NA	NA	NA	NA	NA	NA	NA
Oil exporters	NA	NA	NA	NA	NA	NA	NA
Nonoil commodity exporters	NA	NA	NA	NA	NA	NA	NA
Aid-dependent countries	NA	NA	NA	NA	NA	NA	NA
SRI projections							
LDC aggregate	827.0	872.0	945.0	1,014.0	1,084.0	1,163.0	1,015.6
Latin Amercia	352.0	370.0	405.0	441.0	471.0	508.0	439.0
Africa	69.0	72.0	77.0	82.0	88.0	95.0	82.8
Middle East	94.0	101.0	110.0	119.0	126.0	135.0	118.2
East Asia	118.0	130.0	140.0	145.0	155.0	165.0	147.0
South Asia	68.0	70.0	78.0	85.0	95.0	105.0	86.6
Other	126.0	129.0	135.0	142.0	149.0	155.0	142.0
Of which:							
Major exporters of manufactures	287.0	300.0	315.0	335.0	350.0	370.0	334.0
Major debtors	370.0	386.0	405.0	425.0	455.0	470.0	428.2
Oil exporters	98.0	105.0	120.0	135.0	140.0	145.0	129.0
Low-income countries	64.0	68.0	72.0	76.0	80.0	85.0	76.2

[a] Estimated.
[b] Projected.
[c] Includes Algeria, Egypt, Morocco, and Nigeria. Excludes Iraq.
[d] Excludes China.
[e] Excludes Iraq.
[f] Excludes Algeria and India.

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Table D-6
Third World: Debt Service, 1984-89

Percent

	1984 [a]	1985 [b]	1986 [b]	1987 [b]	1988 [b]	1989 [b]	Average Annual Growth Rate, 1985-89
DRI projections [c]							
LDC aggregate	NA	52.2	50.7	48.0	45.3	43.3	47.9
Latin America	72.0	81.3	77.6	72.4	67.1	63.3	72.3
Africa and Middle East [d]	58.8	59.4	57.0	54.3	52.2	50.1	54.6
Asia [e]	34.5	37.0	37.4	35.7	34.1	33.2	35.5
Of which:							
Asian NICs	21.8	21.7	20.2	18.4	17.2	17.0	18.9
Debt-constrained countries	69.6	79.0	76.7	72.0	67.2	63.6	71.7
Oil exporters	32.6	35.0	31.5	29.9	27.2	25.5	29.8
Nonoil commodity exporters	76.6	84.0	84.7	81.1	77.7	75.4	80.6
Chase projections [f]							
LDC aggregate	8	NA	NA	NA	NA	120.8	NA
Latin America	0	NA	NA	NA	NA	266.4	NA
Sub-Saharan Africa	NA	NA	NA	NA	NA	NA	NA
Middle East and Africa	71.7	NA	NA	NA	NA	63.0	NA
Asia	107.8	NA	NA	NA	NA	91.7	NA
Of which:							
Asian NICs	NA	NA	NA	NA	NA	NA	NA
Major commercial borrowers	290.8	283.4	271.7	258.4	242.2	226.6	256.5
Financially vulnerable LDCs	NA	NA	NA	NA	NA	NA	NA
Oil exporters	NA	NA	NA	NA	NA	NA	NA
Nonoil commodity exporters	NA	NA	NA	NA	NA	NA	NA
Aid-dependent countries	NA	NA	NA	NA	NA	NA	NA
SRI projections [e]							
LDC aggregate	21.5	24.0	25.0	25.0	25.0	25.0	24.8
Latin America	44.6	48.0	50.0	45.0	40.0	35.0	43.6
Africa	24.9	28.0	30.0	28.0	28.0	25.0	27.8
Middle East	23.1	26.5	28.0	27.0	26.5	25.0	26.6
East Asia	14.9	15.5	14.9	14.7	14.0	14.0	14.6
South Asia	9.9	10.1	9.8	10.0	10.2	10.5	10.1
Other	21.3	23.6	24.1	24.2	24.1	24.1	24.0
Of which:							
Major exporters of manufactures	19.1	20.3	21.0	20.6	20.0	19.9	20.4
Major debtors	35.5	39.0	42.0	38.0	35.0	31.5	35.1
Oil exporters	21.1	21.3	21.6	21.9	21.9	22.0	21.7
Low-income countries	22.2	25.0	28.0	27.0	26.0	26.0	26.4

[a] Estimated.
[b] Projected.
[c] Debt service as a share of goods and services exports.
[d] Includes only Algeria, Egypt, Iraq, Morocco, and Nigeria.
[e] Excludes China.
[f] Debt service as a share of exports.

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Appendix E

Economic Prospects Under Alternative Scenarios

Table E-1
DRI's Alternative Scenarios

Economic Outlook	1985	1986	1987	1988	1989	1985-89
Third World						
Real GDP growth *(percent)*						
Baseline	4.0	4.1	4.7	5.2	5.1	4.6 [a]
Recession [b]	4.5	2.7	4.0	5.1	4.8	4.2
Protectionism [c]	3.0	3.9	4.5	5.0	4.9	4.3
Low oil prices [d]	3.5	3.9	4.4	4.9	4.7	4.3
Consumer price inflation *(percent)*						
Baseline	41.4	30.2	25.4	23.5	21.4	28.2 [a]
Recession	42.2	30.2	25.3	23.0	21.2	28.4
Protectionism	41.6	31.3	26.3	24.0	21.6	29.0
Low oil prices	40.5	29.9	25.7	23.6	21.8	28.3
Current account balance *(billion US $)*						
Baseline	−40.8	−39.1	−35.6	−29.8	−26.0	−34.3 [e]
Recession	−39.8	−56.2	−56.4	−51.2	−48.8	−50.5
Protectionism	−55.1	−53.2	−53.1	−49.0	−48.0	−51.7
Low oil prices	−55.1	−52.3	−50.8	−47.5	−43.9	−49.9
Total debt outstanding [f] *(billion US $)*						
Baseline	597.1	630.7	665.7	705.0	748.9	669.4 [e]
Recession	599.2	644.3	693.0	746.2	803.1	697.2
Protectionism	608.1	651.3	698.8	749.8	808.1	703.2
Low oil prices	602.4	638.3	679.1	727.1	777.4	684.9
Asian NICs						
Real GDP growth *(percent)*						
Baseline	6.8	6.3	7.0	6.6	5.8	6.5 [a]
Recession	7.4	3.6	6.3	6.8	5.2	5.9
Protectionism	4.6	5.7	6.3	6.1	5.2	5.6
Low oil prices	7.8	7.5	7.6	7.4	6.3	7.3
Consumer price inflation *(percent)*						
Baseline	5.3	5.7	5.7	5.6	5.7	5.6 [a]
Recession	4.8	5.8	4.9	5.0	5.3	5.2
Protectionism	5.6	5.2	5.3	5.2	5.5	5.4
Low oil prices	3.1	3.9	4.8	5.4	5.8	4.6

Table E-1
DRI's Alternative Scenarios (continued)

Economic Outlook	1985	1986	1987	1988	1989	1985-89
Current account balance *(billion US $)*						
Baseline	−3.4	−3.3	−2.5	−2.0	−2.0	−2.6 [c]
Recession	−1.8	−8.3	−7.9	−8.1	−10.6	−7.3
Protectionism	−6.9	−6.9	−7.7	−7.8	−9.7	−7.8
Low oil prices	−0.4	0.5	2.7	5.6	7.1	3.1
Total debt outstanding *(billion US $)*						
Baseline	60.6	63.4	67.1	73.3	81.5	69.2 [c]
Recession	60.5	63.9	68.7	76.8	88.2	71.6
Protectionism	62.0	66.3	71.6	80.3	91.4	74.3
Low oil prices	60.2	61.7	62.2	64.2	66.0	62.9
Debt-constrained LDCs						
Real GDP growth *(percent)*						
Baseline	1.4	2.3	3.1	3.8	4.1	2.9 [a]
Recession	2.1	0.6	2.2	3.5	3.9	2.5
Protectionism	0.5	2.1	3.0	3.7	4.0	2.7
Low oil prices	0.8	1.8	2.8	3.1	3.3	2.4
Policy [g]	2.7	3.2	3.9	4.4	4.4	3.7
Consumer price inflation *(percent)*						
Baseline	90.8	63.3	51.2	46.7	41.4	58.7 [a]
Recession	92.6	63.1	51.5	45.6	41.2	58.8
Protectionism	90.9	66.1	53.5	48.0	42.1	60.1
Low oil prices	90.4	63.9	52.3	47.2	42.4	59.2
Policy	101.7	74.6	59.8	55.2	49.4	68.1
Current account balance *(billion US $)*						
Baseline	−17.8	−17.9	−18.6	−20.6	−21.7	−19.3 [c]
Recession	−19.6	−27.3	−30.3	−32.1	−30.6	−28.0
Protectionism	−24.8	−25.0	−26.9	−29.6	−31.4	−27.5
Low oil prices	−22.8	−21.9	−26.4	−31.8	−32.7	−27.1
Policy	−22.7	−25.0	−28.1	−32.0	−35.4	−28.6
Total debt outstanding *(billion US $)*						
Baseline	386.4	406.9	428.8	453.4	477.9	430.7 [c]
Recession	388.3	418.3	450.7	485.2	517.2	451.9
Protectionism	393.2	420.1	450.3	483.8	517.8	453.0
Low oil prices	388.6	410.2	437.3	470.1	502.4	441.7
Policy	391.4	418.4	449.6	485.4	523.4	453.6

Table E-1
DRI's Alternative Scenarios (continued)

Economic Outlook	1985	1986	1987	1988	1989	1985-89
Oil exporters						
Real GDP growth *(percent)*						
Baseline	2.7	3.0	3.8	4.7	4.4	3.7 [a]
Recession	3.4	1.6	3.1	4.4	4.1	3.3
Protectionism	2.2	2.8	3.8	4.6	4.4	3.6
Low oil prices	0.6	1.4	2.4	3.6	3.4	2.3
Consumer price inflation *(percent)*						
Baseline	19.6	18.0	16.5	15.5	15.0	16.9 [a]
Recession	20.3	17.8	15.9	14.9	14.7	16.7
Protectionism	19.3	17.8	16.6	15.6	15.0	16.9
Low oil prices	19.2	17.1	16.8	15.7	16.3	17.0
Current account balance *(billion US $)*						
Baseline	−16.7	−15.4	−12.0	−7.5	−2.6	−10.8 [c]
Recession	−15.8	−19.4	−17.5	−13.1	−7.9	−14.7
Protectionism	−20.4	−18.0	−15.3	−11.0	−5.8	−14.1
Low oil prices	−35.0	−35.1	−32.6	−31.8	−28.8	−32.7
Total debt outstanding [b] *(billion US $)*						
Baseline	199.0	210.1	220.6	232.4	245.6	221.5
Recession	199.4	215.9	230.5	246.7	262.7	231.0
Protectionism	201.5	214.1	226.7	240.7	255.8	227.8
Low oil prices	206.3	223.2	242.0	264.9	289.3	245.1
Nonoil commodity exporters						
Real GDP growth *(percent)*						
Baseline	3.6	3.9	4.4	5.2	5.5	4.5 [a]
Recession	4.1	2.5	3.6	5.2	5.3	4.1
Protectionism	2.7	3.8	4.3	5.1	5.4	4.3
Low oil prices	3.9	4.0	4.6	5.1	5.1	4.5
Consumer price inflation *(percent)*						
Baseline	28.6	22.5	19.0	17.5	15.3	20.6 [a]
Recession	29.1	21.3	18.6	17.3	15.6	20.4
Protectionism	28.3	22.3	19.2	17.7	15.2	20.5
Low oil prices	26.9	21.5	19.1	17.5	15.1	20.0

Table E-1
DRI's Alternative Scenarios (continued)

Economic Outlook	1985	1986	1987	1988	1989	1985-89
Current account balance *(billion US $)*						
Baseline	−13.3	−13.6	−13.8	−12.7	−12.1	−13.1 [e]
Recession	−13.5	−16.3	−16.5	−15.4	−14.5	−15.2
Protectionism	−15.1	−15.5	−15.9	−14.9	−14.3	−15.1
Low oil prices	−13.9	−13.3	−14.4	−13.9	−12.8	−13.7
Total debt outstanding *(billion US $)*						
Baseline	146.2	155.9	166.6	175.9	184.4	165.8 [e]
Recession	146.6	158.7	171.9	183.5	194.5	171.0
Protectionism	148.0	159.6	172.3	183.8	194.7	171.7
Low oil prices	146.6	156.2	167.5	177.8	187.2	167.1

[a] Data are average annual rates of growth.
[b] US Recession. Assumes the continuation of tight monetary policies and growing federal deficits push the US economy into a recession in 1986 with the accompanying downward effects on trade and higher interest rates. The economy then grows slower over the remainder of the decade.
[c] Protectionism. Assumes that protectionist measures instituted in the United States result in a 10-percent cut in US imports beginning in 1985. Oil imports are assumed to be unaffected.
[d] Low Oil Prices. Assumes a $5 per barrel cut in crude oil prices starting the first quarter of 1985.
[e] Data are annual averages.
[f] Excludes Iraq.
[g] Relaxation of Austerity. Assumes some of the austerity measures imposed by debt-constrained countries are relaxed. In particular, government expenditure's share of GDP rises by 10 percent and the money supply is increased by 20 percent in 1985.

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Table E-2
SRI's Alternative Scenarios

Third World	1985	1986	1987	1988	1989	1985-89
Economic outlook						
Real GNP growth *(percent)*						
Baseline	4.2	4.4	4.5	4.7	4.7	4.5 [a]
High growth [b]	5.7	5.9	6.0	6.2	6.2	6.0
Low growth [c]	2.5	1.5	−0.5	−0.5	2.5	1.1
Consumer price inflation *(percent)*						
Baseline	30.0	32.0	35.0	38.0	40.0	34.9 [a]
High growth	33.5	37.0	39.0	41.0	48.0	39.6
Low growth	24.0	22.0	21.5	19.0	22.0	21.7
Current account balance *(billion US $)*						
Baseline	−57	−70	−80	−100	−110	−83 [d]
High growth	−59	−65	−76	−80	−85	−73
Low growth	−68	−80	−105	−119	−130	−100
Total debt outstanding *(billion US $)*						
Baseline	872	945	1,014	1,084	1,163	1,016 [d]
High growth	865	909	968	1,023	1,097	972
Low growth	895	952	1,043	1,105	1,171	1,033
Real GNP growth: High growth scenario *(percent)*						
LDC aggregate	5.7	5.9	6.0	6.2	6.2	6.0 [a]
Latin America	4.7	4.8	4.8	4.9	5.0	4.8
Africa	3.1	3.2	3.3	3.3	3.3	3.2
South Asia	5.6	5.4	5.2	4.9	4.9	5.2
East Asia	8.2	8.2	8.4	8.6	10.1	8.7
Middle East	5.1	5.1	5.2	5.2	5.3	5.2
Other	4.1	4.5	4.7	4.7	4.8	4.6
Of which:						
Major exporters of manufactures	4.9	5.8	6.3	6.8	7.3	6.2
Major debtors	5.0	4.9	4.9	5.0	5.1	5.0
Oil exporters	5.0	5.0	5.3	5.3	5.5	5.2
Low income	5.3	5.4	5.5	5.5	5.7	5.5

Table E-2
SRI's Alternative Scenarios (continued)

Third World	1985	1986	1987	1988	1989	1985-89
Real GNP growth: Low growth scenario *(percent)*						
LDC aggregate	2.5	1.5	−0.5	−0.5	2.5	1.1 [a]
Latin America	−1.0	−1.3	−2.2	−2.5	1.0	1.2
Africa	2.2	1.9	1.7	1.5	1.8	1.8
South Asia	3.6	3.3	2.6	2.2	2.2	2.8
East Asia	5.2	4.9	4.5	4.5	5.5	4.9
Middle East	−2.2	−2.9	−3.1	−3.6	1.1	−2.2
Other	1.5	0.9	0.7	0.7	1.0	1.0
Of which:						
Major exporters of manufactures	1.9	1.1	0.9	0.5	2.2	1.3
Major debtors	0.8	0.4	−1.1	−1.3	0.3	−0.2
Oil exporters	−2.7	−3.9	−4.1	−4.4	0.9	−2.9
Low income	3.1	2.9	2.8	2.8	3.1	2.9

[a] Data are average annual rates of growth.
[b] High OECD growth. OECD real GNP is assumed to grow at a robust 5.5 percent throughout the remainder of the decade. Inflation slowly increases to 9.0 percent. Interest rates are assumed to decline to 10.0 percent and trade expands at double the baseline rates.
[c] Low OECD growth. OECD economies plunge into a recession in mid-1985 with no sign of recovering until early 1989. OECD inflation falls to 4.5 percent and interest rates stabilize at 11.0 percent. The volume of world trade is assumed to come to a virtual standstill.
[d] Data are annual averages.

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Table E-3
Chase Econometrics' Alternative Scenarios

Economic Outlook	1985	1986	1987	1988	1989	1985-89
Major debtor						
Real GDP growth *(percent)*						
Baseline	3.5	3.6	3.8	.6	4.5	4.0 [a]
Recession [b]	2.0	2.5	2.7	3.5	3.4	2.8
Interest rates [c]	NA	NA	NA	NA	NA	NA
Export revenues *(billion US $)*						
Baseline	176.3	192.7	210.6	239.9	257.0	215.3 [d]
Recession	170.8	179.8	189.3	201.0	213.0	190.8
Interest rates	NA	NA	NA	NA	NA	NA
Trade balance *(billion US $)*						
Baseline	41.9	43.8	45.9	46.2	51.3	45.8 [d]
Recession	37.0	33.3	29.1	23.7	18.0	28.2
Interest rates	NA	NA	NA	NA	NA	NA
Total external debt *(billion US $)*						
Baseline	499.7	523.4	544.2	564.0	582.2	542.7 [d]
Recession	505.2	541.5	583.2	634.4	696.7	592.2
Interest rates	504.0	533.4	561.1	589.2	616.8	560.9
High absorbing oil exporters [e]						
Real GDP growth *(percent)*						
Baseline	4.2	4.9	4.7	NA	NA	NA
Oil price [f]	−3.8	4.9	4.9	NA	NA	NA
Export revenues *(billion US $)*						
Baseline	100.4	108.5	118.6	NA	NA	NA
Oil price	81.7	88.6	100.9	NA	NA	NA
Trade balance *(billion US $)*						
Baseline	23.9	23.3	23.0	NA	NA	NA
Oil price	5.5	3.6	5.6	NA	NA	NA
Total external debt *(billion US $)*						
Baseline	232.0	243.2	255.9	NA	NA	NA
Oil price	232.0	243.2	255.9	NA	NA	NA

[a] Data are average annual rates of growth.
[b] OECD Recession. Assumes OECD real annual rate of growth falls 1 percentage point below baseline growth rates beginning in 1985.
[c] Higher Interest Rates. Assumes world interest rates rise 1 percentage point above baseline interest rates beginning in 1985, and that no additional external financing is available to debtor countries.
[d] Data are annual averages.
[e] Includes Ecuador, Egypt, Indonesia, Malaysia, Mexico, Nigeria, and Venezuela.
[f] Oil Price Decline. Crude oil prices are assumed to decline to $20 per barrel in 1985 and 1986 from baseline of $28 per barrel, and that the oil exporters do not increase their external borrowing.

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